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Prime Minister (2)
WELSH OFFICE
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From The Parliamentary Under-Secretary

CT/5341/82

29 July 1982

Dear Geoffrey,

MS

WELSH WATER AUTHORITY

You wrote to me on 9 July in reply to my letter of 29 June, and I must say that I found the terms of your letter surprising in a number of respects.

You seem to have taken no account of the fact that we have taken a firmer grip on the Welsh Water Authority in the last few months than any Government Department has ever done on a "trading" quango. We have radically altered the nature and membership of the Board and insisted on the engagement of consultants to suggest ways of improving efficiency.

This has been done against a background of legislation which gives a large measure of independence to the Authority, widespread antagonism towards our proposals by local authorities and other interests, a vigorous political campaign against the higher charges, and a hostile enquiry by the Select Committee on Welsh Affairs.

When we came to draft objectives for the new Authority, we took the view that those drafted by the DoE for the English Water Authorities were not strong enough, and prepared a tougher version.

I must therefore reject the suggestion that our approach has been "surprisingly bland"; on the contrary, it has been vigorous and positive.

You will now be aware from Tom King's secretary's letter of 15 July that a small working group is to be established to finalise objectives for the water industry. These will form a framework to which will be added specific objectives for individual authorities. We can consider the matter further after this group has reported.

/With the new ...

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW 1



With the new WWA Chairman and Board in place, we must give them a chance to sort themselves out, and they are already showing encouraging signs of doing this. They are actively engaged in planning cost reductions, and, as you say, we are expecting them to produce a new Corporate Plan. This plan will include proposals for capital investment which we will be able to consider. As far as manpower and other operational costs are concerned, I can assure you that we lose no opportunity to impress on the WWA the need to reduce these costs.

Lastly, you mentioned the matter of bulk supply charges. I must emphasise that the Secretaries of State for Wales and the Environment are in a quasi-judicial position in this matter, and we must all avoid any prejudicial comment one way or the other. But I cannot understand why you think that any charge which the importing authority found worth paying was a subsidy. The issue before us is essentially: what is a fair price for the purchase of water by one Authority from another. If you are saying that the WWA should not sell water at all because that decreases the pressure on it to reduce its costs, the consequence would be costly and unnecessary capital investment by the Severn Trent Water Authority to secure alternative supplies within its own area. I cannot believe that that is what you have in mind.

Copies of this letter go to the recipients of yours.

Yours sincerely
Wyn Roberts

WYN ROBERTS



Prime Minister (2)

ms 1/2
CC J.V.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

9 July 1982

Wyn Roberts Esq MP
Parliamentary Under Secretary of State
Welsh Office
Gwydyr House
Whitehall
LONDON SW1A 2BR

ms

Dw Wyn

You wrote to me on 29 June enclosing a paper on the Welsh Water Authority, together with draft objectives for the Authority.

I must say I found the general tone of the paper surprisingly bland in the light of the difficulties experienced this winter. In particular, I find it surprising that an Authority, at least 12 per cent of whose customers are receiving unacceptable or inadequate water supplies, should choose to cut its investment programme to enable it to borrow to fund a current account deficit. I find it more surprising that paragraph 2 of the paper implicitly approves rather than condemns this cut back in investment. It may have helped to keep the charges down; but it has been detrimental to the level of service the Authority can provide, and it has allowed the Authority to avoid taking difficult decisions to cut manpower and generally improve operating efficiency.

But I realise that the policies of the Authority are in a state of flux at the moment, as the new Chairman and Board get to grips with the substantial problems they have inherited. I understand they are due to submit a revised Corporate Plan, and that will need to be considered by officials before we decide whether anything more needs to be done. I do not, therefore, propose a discussion in E(NI) at this stage.

But I would like to take the opportunity to comment on the current disagreement about bulk supply charges, mentioned in paragraph 6 of your letter. I understand the new Authority are reviewing their position, but I would like to make clear at this stage that I would resist any proposal which is intended to provide an explicit or implicit subsidy to the Welsh Authority. That can only weaken the pressure on them to put their house in order. The right way to reduce charges is to improve efficiency and cut operating costs, and there can be no easy escape from that.

/I am

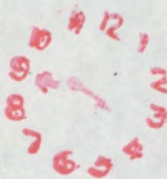


I am copying this to the Prime Minister, members of E(NI),
Nicholas Edwards, Alick Buchanan-Smith, Sir Robert Armstrong
and John Sparrow.

[Handwritten signature]

GEOFFREY HOWE

9 JUL 1982



bc JV JR

Local Govt



10 DOWNING STREET

From the Private Secretary

5 July 1982

Dear Ian.

OBJECTIVES FOR THE WELSH WATER AUTHORITY

The Prime Minister was grateful to your Minister for sending her a copy of his letter of 29 June to the Chancellor of the Exchequer, to which the draft general objectives for the Welsh Water Authorities were appended at Annex B.

The Prime Minister would be grateful if the objectives could include a reference to the need to contain manpower costs. This could presumably be included in paragraph 6 of the draft.

I am sending copies of this letter to the Private Secretaries to other members of E(NI), to Lestor Hicks (Local Government and Environmental Services), Sarah Nason (MAFF), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholten

I. Price-Jones, Esq.,
Welsh Office.

sl

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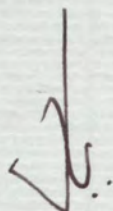
MR SCHOLAR

cc:- Mr Walters

Mr Mount

OBJECTIVES FOR THE WELSH WATER AUTHORITY

I am sure the Prime Minister will not wish to look in any detail at the proposed objectives for the Welsh Water Authority circulated under cover of Mr Roberts' letter of 29 June. But you will recall writing, with the Prime Minister's agreement, about the need to make a reference to manpower costs in the objectives letter for the English Water Industry, and an identical point needs to be made about paragraph 6 of the draft objectives for the Welsh Water Authority at Annex B to Mr Roberts letter.

A handwritten signature in black ink, appearing to be 'J. J.', located below the main text.

2 July, 1982

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Prime Minister (4)

Mus 30/6

WELSH OFFICE
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Tel. 01-233 3000 (Switchboard)
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From The Parliamentary Under Secretary

WJ
24th June 1982

Dear Geoffrey:

will request if required

In his letter of 28 April to Tom King, which was copied to members of E(NI), Nicholas Edwards said that he would be circulating a paper on the Welsh Water Authority.

I now enclose a copy of the paper, together with the draft objectives for the Welsh Water Authority, which form an Annex to it. A copy of these draft objectives has been sent to the Welsh Water Authority Chairman.

I am sending copies of this letter to the Prime Minister, members of E(NI), Tom King, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

Tom King
Wyn Roberts

WYN ROBERTS

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street SW1P 3AG

OBJECTIVES OF AND FOR THE WATER INDUSTRY

MEMORANDUM BY THE SECRETARY OF STATE FOR WALES

1. The Minister for Local Government and Environmental Services has circulated a paper on objectives of and for the water industry. That paper dealt with the nine English Regional Water Authorities (RWAs) and although much of it is relevant to the Welsh Water Authority (WWA) there are some differences of emphasis which I should draw to the Committee's attention.

Background

2. The WWA have themselves contained their level of capital expenditure, which has generally been kept well within the PES limits, first because of the need to review previously authorised projects, later because of the need to avoid further increases in interest charges. Like the RWAs the WWA have been set target current cost operating profits, but have been allowed longer to reach the general target of 1.25% return on net revalued assets, viz, 0.3% in 1981/82, 0.95% in 1982/83, 1.05% in 1983/84, 1.15% in 1984/85 and 1.25% in 1985/86. Performance aims have already been set for the WWA, (in August 1981) as a single figure (£60.9m at 1979/80 out-turn prices) for total operating costs in 1983/84 on water supply, sewerage and sewage disposal, with 'staging posts' for the two intermediate years. Experience in monitoring the first year of the period leads me to believe that the discipline imposed by performance aims is helping to improve management control, both at HQ and Divisional level.

3. The WWA's finances were reviewed in November 1981 by consultants (Price Waterhouse) and although the Authority have not so far agreed to implement all the consultant's recommendations within the tight timescale proposed, they are now making a real effort to reduce their costs. They propose to save £3m on manpower by 1984/85 through shedding nearly 10% of the total workforce. The proposed savings on other operating costs should amount to about £2.2m by 1984/85, giving total savings of

£5.2m or about 5% of present revenue expenditure.

4. I formed the view early in 1981 that the cumbersome structure of the WWA was hindering the taking of steps to improve the management of the undertaking. As in the case of the RWAs, there was a majority of local authority members on the WWA. The total membership was 35 and many of the members were not experienced in running businesses or in the principles of management. There was an elaborate structure of committees which made decision-making a ponderous process.

5. Because the WWA constitution could be changed by statutory instrument I was able to reconstitute the Authority with effect from 1 April 1982 as a 13-member board, all appointed by myself. Four of the 13 are chosen to represent local authorities (Welsh and English) within the WWA area. I am now in the process of finalising guidelines for the establishment of local consumer advisory committees, based on the WWA divisional areas and designed to safeguard the interests of consumers and allow individual local authorities a place in the arrangements.

Current Major Problems

6. The level of water charges in Wales is an important issue in the Principality. Contrasts are drawn particularly between the charges in the area of the Severn-Trent WA (average domestic bill in 1982/83 £62.44) and the WWA average domestic bill in 1982/83 £79.08). There is a widespread misconception that water charges have risen more steeply than inflation. In general this is not true and the misconception is partly due to equalisation of charges throughout the WWA area and partly because of the separate identification of water supply and sewerage charges in individual bills and the complete loss of rate support grant on such services. At Annex A is a table of WWA charges since 1974. The difficult question of bulk supply charges payable to the WWA by the Severn-Trent and North West Authorities is now under consideration by the Secretary of State for the Environment and myself.

7. Linked with the question of charges is the problem of the financial viability of the WWA. The Authority reached the position at 31 March 1981 that they had expended all their accumulated balances and had to carry forward a deficit of £0.8m.

I have made it plain to them that this position must not be allowed to continue and it was for this reason that I raised their CCOP target from 0.3% to 0.95% in one year.

8. In 1981/82, 12% of the Authority's resident consumers received supplies which were judged to be unacceptable on quality grounds. There are also areas where pressure is unreliable. Much needs to be done to raise these poor levels of service and also to replace old water mains and, to a lesser extent, sewers. A large proportion of the current cost depreciation should be earmarked for this purpose.

OBJECTIVES

9. I have now prepared draft objectives for the WWA, which have been drafted with their particular problems in mind. These are at Annex B. A copy has been sent to the Chairman of the WWA, and the objectives will shortly be discussed with him.

WELSH OFFICE

25 June 1982

WELSH WATER AUTHORITY CHARGES SINCE 1974 TO DATE

YEAR	UNMEASURED WATER SUPPLY			SEWERAGE		ENVIRONMENTAL SERVICES		Total (e) Average Domestic Bill (£)	Percentage Increase of Total Average Domestic Bill over Previous Year (%)
	Rate Poundage (pence)	Standing Charge (£)	Average (a) Domestic Bill (£)	Rate Poundage (pence)	Average (a) Domestic Bill (£)	Rate Poundage (pence)	Average (a) Domestic Bill (£)		
1974-75 ^(b)	11.1	-	13.32	7.3	8.76	-	-	22.08	-
1975-76	12.5	5.00	20.00	13.5	16.20	-	-	36.20	63.9
1976-77	14.8	5.00	22.76	16.2 ^(c)	19.44	0.4 ^(c)	0.48	42.68	17.9
1977-78	17.0	5.00	25.40	16.4	19.68	0.6	0.72	45.80	7.3
1978-79 ^(d)	14.8	5.00	22.76	16.0	19.20	0.74	0.89	42.85	(- 6.4) ^(d)
1979/80	16.4	6.00	25.68	18.0	21.60	0.83	1.00	48.28	12.7
1980/81	19.9	7.00	30.88	21.6	25.92	1.1	1.32	58.12	20.4
1981/82	23.48	9.00	37.18	23.5	28.20	1.15	1.38	66.76	14.9 ^(e)
1982/83	28.0	11.00	44.6	27.46	32.95	1.27	1.52	79.07	18.4

The overall percentage increase in total average bill between 1974-75 and 1982-83 is 258%
and between 1975-76 and 1982-83 is 118%^(f).

NOTES

- (a) Assumes a rateable value of £120.
- (b) As an interim measure in their first year of operation the WWA maintained the greatly varying charges of their predecessors - the charges quoted in the table are estimated averages.
- (c) In 1976, the sewerage charge was divided into 2 charges, one for sewerage and the other for environmental services, to enable the former to be charged only to those consumers connected to public sewers.
- (d) The first year of the partial equalisation scheme.
- (e) Partial equalisation scheme suspended.

Charges for water services prior to reorganisation were frequently subsidised from the general rates, and because those charges were temporarily maintained by the WWA, realistic comparisons are better made against 1974-75 charges.

LGH

GENERAL OBJECTIVES FOR THE WELSH WATER AUTHORITY

1. To provide each present and prospective customer with a reliable, economically-run service for wholesome water supply, sewerage and sewage disposal at a charge to users that covers the cost of provision and achieves a satisfactory level of financial performance in accordance with objective 6 below.
2. To exercise a general supervision over all land drainage matters in their area and to carry out land drainage maintenance and improvement works on main rivers and works necessary for defence against flooding, including flooding from the sea, in such a way as to secure the optimum benefit from any expenditure.
3. To survey and record as far as practicable and maintain ^{in a sound and safe condition} those assets which are essential for the provision of the services referred to above.
4. To eliminate over a reasonable period deficiencies (ie failures to meet generally acceptable standards) in the quality of service and of rivers and estuarial waters and in due course coastal waters.
5. To provide as resources allow for the availability and use of water and its associated land for recreation and to meet their statutory responsibilities for fisheries effectively and economically.
6. To conduct the Authority's affairs with the efficiency characteristic of a well-run major business in the private sector, especially in respect of manpower and with regard to consumers and to the environment, and in particular
 - a. to ensure the achievement of financial targets and compliance with external financing limits as directed by the Secretary of State;

- b. to set and achieve performance aims, in agreement with the Secretary of State, including detailed budgets and manpower targets for each part of the Authority's activities, in the framework of a timed programme for the reduction of operating costs without reducing levels of service below minimum acceptable standards;
- c. to develop adequate and, where practicable, quantitative means for assessing and monitoring the cost-effectiveness of the Authority's activities, both in the long and short term, and systematic evaluation of investment projects both before and after execution;
- d. to keep charges as low as possible, consistent with the objectives here set out;
- e. to take all suitable opportunities for private sector participation in the Authority's activities and the disposal of surplus land and property;
- f. to ensure the efficient operation of adequate systems for consulting users about their needs and for dealing with representations promptly, sympathetically, and effectively;
- g. to carry out their functions with a proper care for the protection of the environment.